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Survival Strategies of independent retail pharmacies in South Africa

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Survival Strategies of independent retail pharmacies in South Africa

Gcinile Sibanyoni

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2012

ABSTRACT

The retail pharmacy industry in South Africa has undergone numerous macro environmental changes, mainly due to regulatory reforms aimed at lowering the cost of medicines. This has had a negative impact on the survival of independent retail pharmacies, as well as the pharmacy profession in general.

Independent retail pharmacies are likely to face more difficulties due to these changes. The purpose of this research, therefore, is to investigate the impact of the regulatory reforms as well as survival strategies that independent retailers have adopted in order to survive.

Existing literature on the impact of mega-retailers shows that this is a global phenomenon and the most prominent outcomes have been lower profit margins and loss of customers for small independent retailers.

The research method used was qualitative in order to explore and gain insights into the various aspects of possible survival strategies. A total of seventeen respondents were interviewed, consisting of fifteen retail pharmacy owners and two industry experts.

The impact of ownership changes has lowered the barriers to entry for mega-retailers resulting in intense rivalry between them and independent retail pharmacies. The result has been an alarming coverage of pharmacy mega-retailers in urban areas. This has caused a dilemma for small pharmacies resulting in most of them closing down. Small independent retailers are seeing fewer customers due to the ease of switching stores and there is little customer loyalty. Mega-retailers on the other hand offer a wider product range, at prices perceived to be lower than independent retail pharmacies.

Survival strategies that emerged from the results show that service specialisation and niche strategies are the most commonly used strategies by small retail pharmacies. The advantage that small pharmacies have is their size which makes customer service more interpersonal.

DECLARATION

I, Gcinile Sibanyoni, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Gcinile Sibanyoni

Signed at Wits Business School

On the 30th day of March 2012

DEDICATION

I wish to dedicate this research to my angels, Simphiwe and Nosipho.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to investigate how retail pharmacies have adapted their survival strategies amidst macro-economic changes in South Africa. In an environment where large discount retailers are gaining entry and economies of scale, the business of small independent retailers has been negatively affected thereby threatening their survival and profitability.

In order to fully appreciate the complexities involved in the retail pharmacy industry it is necessary to understand the various characteristics of the South African society in terms of legislative changes that have affected the pharmaceutical industry.

The term used internationally for retail pharmacy is known locally as community pharmacy which is used as a synonym in the South African context.

1.2 Context of the study

The race is on among local South African retailers to establish a good grip on the pharmacy market. In-store pharmacies are being introduced rapidly as shopkeepers strive to deliver convenience to shoppers and get them into the stores. Ultimately it is all about the battle for consumers, growing market share and increasing sales. Clicks, which began adding pharmacies to its core health and beauty offering in 2004, is the market leader, with 224 pharmacies across its 354 stores (Planting 2010).

Fierce competition from mass merchandisers, changing demographics, and shifting consumer purchasing patterns are forcing small independent retailers to alter the ways they had traditionally conducted business. However, the velocity of these changes is threatening the very survival of the local merchant in many instances (Love 1999).

Mega-retailers in South Africa have been investing in pharmacies since 2003, when legislation was passed relaxing the provision that a pharmacy must be owned by a pharmacist. It became possible for companies to own chains of pharmacies and install a pharmacist to run the dispensing operation (Planting 2010).

This has put pressure on the independent pharmacies. Profits are already under pressure because of regulated pricing, and without the economies of scale enjoyed by the large retailer, they will struggle to compete on price (Planting 2010).

The year 2009 brought a reduction in the number of pharmacies in some Central European countries. In Poland the number has been falling since mid-2009. The weak economy is not the only cause of this development. The main reason for the reduction in pharmacy numbers is market saturation, which has caused many small independent pharmacy retail outlets to operate at a loss (Stawarska and Stefanczyk 2010).

The global pharmaceutical industry is characterized by legislative interventions in order to control the exorbitant prices of medicines. The results of these regulations have seen an increase in mega-retailers within the retail pharmacy sector at the expense of small independent retailers who find it difficult to compete on price (Deeney 2003).

In South Africa, the legislation which governs the business of pharmacy retailers or community pharmacies is The Pharmacy Act, 1974 (Act No. 53 of 1974).The Act defines a pharmacy as “any place wherein or from which any service specially pertaining to the scope of practice of a pharmacist is done” (Department of Health 2003, Government Gazette 24770 (c.1), pp.3).

Before 1994, The Medicine and Related Substances Act of 1965, also known as Act 101of 1965 limited the ownership of retail pharmacists to registered pharmacists, close corporation if all members are pharmacists and bodies corporate if all shareholders are pharmacists (Gilbert 1998).

One of the regulatory health reforms which changed the terms of The Pharmacy Act and The Medicine and Related Substances Act, allowed non-pharmacists also

known as “lay-ownership”, to open and operate pharmacies. This change was coupled with the introduction of pricing policies which were aimed at reducing the prices of medicines. These regulatory reforms being utilitarian in nature, have had a positive spill over effect onto the public at large by lowering the prices of medicines, and allowing the public to make informed decisions when it comes to purchasing pharmaceuticals (Lowe and Montagu 2009).

The practice of government intervention in the regulation of the pharmaceutical industry seems to be a global phenomenon. It is therefore a known fact that, the formal private sector pharmaceutical retailing in most countries, including low-income countries is governed by regulations that prescribe ownership, staffing, acceptable medicines along with sources and quality standards, as well as pricing and prescription practices (Ratanawijitrasin and Wondemagegnehu 2002).

The regulatory reform, on which this study is based, is the decision by government to allow non-pharmacists to open and operate pharmacies. The business problem is therefore to investigate how this policy reform has had an impact on the community pharmacies, in terms of strategies for long term survival.

1.3 Problem statement

1.3.1 Main problem

To investigate the impact of government regulatory policies for retail pharmacies, on small, independent retail pharmacies. Furthermore, the research also identifies the survival strategies adopted by these small retail pharmacies, in a regulatory environment which threatens their survival.

1.3.2 Sub-problems

The first sub-problem is to investigate the impact of allowing non-pharmacists to own pharmacies on the survival of the small independent retail pharmacy industry.

The second sub-problem is to identify the survival strategies for these small retail pharmacies, in a regulatory environment which threatens their survival.

1.4 Significance of the study

The study fills a gap in that it provides information about the survival strategies which have kept small retail pharmacies within the business, given the government controlled regulatory environment.

In South Africa, the small business sector constitutes a large portion of the economy. Approximately 98 per cent of all the retail businesses in South Africa can be classified as small businesses and these small businesses contribute about 70 per cent of the total retail sales of the country (Kroon and Moolman 1991).

The study provides guidance for small retail pharmacists who may wish to identify strategies in order to survive within the pharmacy retail sector.

The study informs large mass retailers on ways in which they could improve by applying some of the core competencies which customers appreciate about small retailers.

The study is also for pharmacy students who may wish to enter the retail pharmacy sector as business owners about the challenges of the industry.

1.5 Delimitations of the study

The focus for this study is limited to small independent retail pharmacy owners who currently own and operate their businesses in the Gauteng province of South Africa.

The study does not include pharmacies owned by retail chains and mega-retailers.

Furthermore, the study does not attempt to analyse the success of the strategic management tools used by the small independent retailers.

1.6 Definition of terms

- Community Pharmacy - The Pharmacy Act, 1974 (Act No. 53 of 1974), defines a community pharmacy as “a pharmacy wherein or from which some or all of the services of a pharmacy are provided to the general public or any

defined group of the general public, but excludes an institutional pharmacy". (Department of Health 2003, Government Gazette 24770 (1), pp. 3).

- Mega-retailers - are retail stores with pharmacies operating within one large store and may be owned by retail chains or business groups. A number of terms are attached to retail "super" store operations, including "hypermarkets" in Europe (Gonzalez-Benito 2001), and in North America "box retailers," "discount retailers" and "mega-retailers." These terms generally apply to stores which are 2,500 sq. meters in surface .In this study the term "mega-retailer" is used, since this appears to be the more common generic title (Cotton and Cachon 2007).

- South African Pharmacy Council (SAPC) –the statutory registration body for all pharmacists in various sectors of the South African economy.

- Pharmaceutical Society of South Africa (PSSA) – a voluntary organisation for pharmacists in various sectors on the South African economy.

1.7 Assumptions

The following assumptions have been made with regards to the study:

- Small independent retailers understand the threat posed by mass retailers and their need for adopting survival strategies as imperative.

- The legislation on the ownership of retail pharmacies has had an impact on the revenue of small independent retailers.

- The legislation has made small independent retailers more aware of their own competitive advantages.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter firstly discusses the literature associated with the international retail pharmacy market. This is followed by the regulations which currently govern all retail pharmacies in South Africa. After that the literature concentrates on the South African retail pharmacy market and the various macro-economic factors which are relevant within the sector.

The literature then defines survival strategies for small retailers. These survival strategies then form a construct for the research instrument which was used in the research. The chapter then ends with the conclusion of the literature.

2.2 Retail pharmacy Sector

2.2.1 International Retail Pharmacy Market.

In order to understand the retail pharmacy market sector, it is important to fist discuss the factors and trends which are relevant within the global retail pharmacy sector.

Communities across the United States have long depended upon their local family pharmacists for medication, advice and support. The dependence is more prevalent in small rural areas where the pharmacist is not only a respected entrepreneur, but also the primary resident healthcare professional (Smith 1996).

According to Smith (1996), the most significant characteristic of community pharmacists is their accessibility. They are available to the public throughout the working day, with no appointments, no receptionists and no direct charges. They are readily available to provide advice on healthcare, and there is clear evidence that despite some problems, they offer a service that many general practitioners and consumers both value and use (Reekie 1997).

2.2.2 Government Regulation in the international retail pharmacy sector

Regulation may be defined as, the public administrative policy of a private activity with respect to a rule prescribed in the public interest (Mitnick 1980).

Due to the socio-economic association to medicine, it would be expected that the pharmaceutical industry is highly regulated in areas such as price and profit controls, research and development and promotional activity (Reekie 1997).

Pricing regulations can be found in most of the European and Middle Eastern countries, Australia, New Zealand, the Far East, and Canada (Wertheimer and Grumer 1992). Some countries, such as France and Italy, regulate drug prices directly through price control; others, such as Australia, use pharmacoeconomic analyses and reference pricing to determine the prices of drugs subsidized by the government (Danzon 1999).

The international pharmaceutical market shows substantial regional differences in availability and promotion of drugs. This variation depends on affluence, health requirements, capacity for local manufacture, and the restrictions which countries may impose to control dangerous or inappropriate use of drugs (Menkes 1997).

2.2.3 Macroeconomic factors affecting the retail sector

Anderson (1997) identified many factors that have a direct and indirect impact on the retail industry and these are:

1. Inflation - A modest increase in the inflation rate without comparable increases in wages will slow retail sales and hut the economy as a whole.

2. Interest rates - Like low inflation rates, low interest rates put more buying power into consumers' hands.

3. Consumer confidence - How consumers feel about their present situations and their future affects the way they spend their pay checks.

4. Public policy - The end of the Cold War saw the United States of America focus on health care reform and deficit reduction though higher taxes.

5. Industry - Wide trends such as consolidation affect retail success. Increased business competition from national chains is only one of the several forces that have begun to shape today's retail landscape.

These changes in pharmacy constitute a fundamental dichotomy in community pharmacy: trying to balance the need for increased patient access to medication with the need for pharmaceutical care to ensure optimal medication use (Dugan 2006).

2.2.4 The South African Retail Pharmacy Industry

The South African pharmacy retail industry, prior to 2003, was characterised by small independent store owners who were suitably qualified as pharmacists and registered with the South African Pharmacy Council. The first pharmacy retail store can be traced back to 1842 when two pharmacists, Lennon and Petersen, started a pharmacy in Cape Town and produced medicaments for resale to other pharmacies on a commercial basis (Kleizen 1983).

After the government started discussions for regulatory changes which allowed non-pharmacists to own pharmacies in 1994, the industry has been dominated by mass-retailers which operate pharmacies within their stores, such as Shoprite, and pharmacy retailers such as Clicks and Dischem.

Gilbert (1998) proposed that pharmacists needed to gear up for change in order to continue dispensing medication prescribed by Doctors and at the same time trying to make a living in a climate of economic hardships and competition from dispensing doctors and supermarkets.

2.2.5 Ownership patterns of retail pharmacies in South Africa

The law which governs the ownership of retail pharmacies in South Africa is the Pharmacy Act, 1974 (Act No.53 of 1974) which states:

- **Ownership of community pharmacies**

Any person may, subject to the provisions of regulation 7, own or have a beneficial interest in a community pharmacy in the Republic, on condition that such a person or in the case of a body corporate, the shareholder, director, trustee, beneficiary or member, as the case may be, of such body corporate :-

a) is not prohibited by any legislation from owning or having any direct or indirect beneficial interest in such a pharmacy;

b) is not an authorised prescriber;

c) does not have any direct or indirect beneficial interest in or on behalf of a person contemplated in paragraphs (a) and (b); or

d) is not the owner or the holder of any direct or indirect beneficial interest in a manufacturing pharmacy.

Source: Department of Health (2003) Pharmacy Act No. 53 of 1974 (c.1) pp.4 Government Gazette 24770 of 25th April 2003.

The following data shows the ownership patterns for all pharmacies in South Africa as at 19th October 2011.

RETAILER	NUMBER OF PHARMACIES	PLANNED ROLL-OUT
Clicks	224	20 by year end
Pick ‘n Pay	17	40 by year end
MediRite (Shoprite)	90	80 in 18 months
Woolworths	3	None
Dischem	47	16 by year end
Independent Pharmacies	2100	Unknown
		Source: Planting (2010)

Table 1: Retail Pharmacies within Mega retail stores (Planting 2010).

2.2.6 Government regulations in the pharmacy retail sector

The involvement of government in the healthcare sector is of political interest since it is a public good and can be justified for socio-economic reasons.

A public good is a good or service that is non-rival or non-excludable. Non-excludability means no-one in the defined area can be deprived of the good on the grounds of an inability to pay. The non-rivalry property of public goods suggests that the consumption by additional consumers does not reduce the quantity consumed by existing consumers (Mohr, Fourie and Associates 2000).

- **The National Drug Policy**

The South African pharmaceutical sector has undergone numerous changes since the introduction of the National Drug Policy in 1994 following the recommendation headed by then Minister of Health Dr N.C Dlamini Zuma. One of the main terms of reference for the National Drug Policy was to rationalise the structure for pharmaceutical services in South Africa. Other objectives of the Policy were for the government to develop a pricing plan for drugs and to increase the use of generic drugs in South Africa (Zuma 1997).

The pharmaceutical sector, as a component of the health sector, reflected its deficiencies, most notably the lack of equity in access to essential drugs, with a consequent impact on quality of care. Furthermore, rising drug prices, already high in international terms, gave increasing concern as did evidence of irrational use of drugs, losses though malpractice and poor security and cost effective procurement and logistic practices (Zuma 1997).

The National Drug Policy then introduced legislation and regulations on licencing of pharmacy practitioners and premises in which ownership of pharmacies by lay persons and other health care professionals were considered. Where non-pharmacist ownership was permitted, the pharmacy was still expected to be under the full-time management and supervision of a registered pharmacist.

Legislation on pharmacy ownership differs by each country, depending on whether the government wishes to control certain aspects of the whole healthcare value chain (Lowe and Montagu 2009).

Countries such as Australia are strict about ownership being reserved for qualified pharmacists. This is confirmed by Greenwood (2005), who argues that under the present system, Australia's community pharmacies provide a valuable service to the Australian community. He further states that opening up the current pharmacy ownership rules would destroy the distribution system, as large corporations operating in prime market sites in the cities would buy direct from manufacturers, setting up their own distribution system and damaging the viability of the current, finely-balanced distribution system, which treats remote areas in the same way as it treats major cities.

A study regarding the ownership patterns of retail pharmacies in various countries (Lowe and Montagu 2009), states that while pharmacy retail chains are common in Canada, the US, the UK, and across much of Latin America and East Asia, many countries in Europe, Asia, and Africa impose regulatory limits on pharmacy ownership, prohibiting chains and discouraging franchises.

In the same study (Lowe and Montagu 2009) discussed that South Africa permitted corporate ownership of pharmacies for the first time in 2003, stemming from legislative changes. They further stated that in consolidation of retail pharmacies is a common trend in the industry.

The result of this practice has been the battle for survival for the small independent retailers who find it difficult to compete on price, therefore being forced out of business by the market forces.

- **The Medicines and Related Substance Amendment Act of 1997**

In 1997, The Department of Health in South Africa promulgated the Medicines and Related Substance Amendment Act of 1997 (MRSAA) which was an attempt to reduce the rising costs of medicines and in keeping with Governments guiding policy

of making medicines more affordable to every person in South Africa without compromising safety, efficacy, and quality of those medicines .

The key regulations in this Act which have affected the retail pharmacy industry are as follows:

- Single Exit Price (SEP) – for prices of medicines in the private sector whilst government can still tender at a lower price.

- Introduction of minimum dispensing fees – The draft dispending fee of August 2010 states that the pharmacists may charge a fee not exceeding R6 plus 46 per cent of the SEP for medicines that cost less than R75. For medicines or scheduled substances costing between R75 and R199.95 the fee may not exceed R15 plus 33 per cent of the SEP. Where the SEP is greater than or equal to R200 but less than R700, the dispensing fee shall not exceed R51 plus 15 per cent of the SEP. For medicines that cost R700 or more, the dispensing fee must not be more than R121 plus 5 per cent of the SEP (Kruger 2010).

- Introduction of dispensing doctors and Designated Service Providers (DSP's): DSP's are written in the Medical Schemes Act. Some pharmacy associations, have in the past, filed a case with the Competition Commission against one of the large South African Medical Schemes where they feel that collusion has taken place, therefore further threatening the survival of the pharmacy profession as a whole (Kruger 2010).

- No bonuses purchases made for retail pharmacies: The aim for this initiative by government was to stop perverse kick-backs and unethical dispensing by pharmacists (Kruger 2010).

- No advertising of pharmaceuticals (African National Congress Health Plan 2004).

- Introduction of non-pharmacist owning retail pharmacies (African National Congress Health Plan 2004).

2.2.7 Other cost reduction strategies by the South African Government

In line with policy reforms aimed at improving the lives of its citizens, the South African government has made cost reduction a priority in order to lower the price of healthcare for the country. Government is keen to replace branded products with their generic equivalents in order to save costs. Other related parties such as medical aid administrators as well as employers who subsidise healthcare costs are also bringing pressure to reduce the price of medicines (Bartlett 1988).

The consequence of this interference from government is that retail pharmacists must advise patients on cheaper generic medicines and can no longer issue the more expensive ethical medicine unless the patient insists on it. In the past, ethical medicines were known to carry a substantial profit mark-up for small retailers since patients would not have an alternative cheaper drug with the same active ingredient (Deeney 2003).

In the past, retail pharmacists could charge up to fifty per cent as mark-up on the wholesale price plus a R1.30 dispensing fee per item. To this is added a charge of ten per cent of the cost of the part taken out of the pack for “broken bulk” when the pharmacist dispenses a smaller quantity of medicine from a large pack size. This adds about two per cent to the overall price of medicine in the private sector (Bartlett 1988).

The strict cost control in such an environment therefore forces the small retailer to look for alternative strategies in order to survive.

The South African government has initiated national healthcare reforms to provide affordable healthcare of which will benefit society as a whole. Furthermore it can be argued that the regulatory role of government may be necessary to ensure the practice of social solidarity and promote cost-efficiencies in healthcare funding (Ron, Abel-Smith and Tamburi 1990).

The implementation of the National Health Insurance (NHI) has also prompted private pharmacies to appeal to government to permit state medication to be dispensed at all pharmacies. United South African Pharmacies (USAP) believes that

the problem of supplying chronic and acute medicines can be alleviated - both now and when a national health insurance system (NHI) is launched (Watson 2010).

These small independent pharmacies are currently struggling to survive in the shadow of retail pharmacies such as Dischem and Clicks, which are swallowing an increasing slice of the pie (Watson 2010).

2.2.8 Market Structure of the retail pharmacy sector

The South African pharmaceutical market is made up of three main sectors, namely manufacturing, wholesaling and retailing.

- **The Retail Pharmacy Sector**

The retail pharmacy sector distinguishes medicines in relation to their schedule or strength. There are two main categories (Turner 1994):

1. Over The Counter Medicine (OTC)

   Mainly consist of schedule 0 up to 2 which includes cough mixtures, mild pain killers and allergy medication. These items do not require a prescription form a Doctor and may be issued by the pharmacist.

2. Prescription Medicine

   Mainly includes schedule 3 up to 6. This includes antibiotics, strong pain killers and mood altering drugs. These items are open to abuse and can cause dependency in patients if not monitored correctly. A prescription is required from a Doctor.

The retailing sector of the pharmaceutical market is highly fragmented. In 1994, there were 2874 pharmacies operating in the whole country (Turner 1994).

Over the last three decades, pharmacies have lost market share in many traditional areas for example cosmetics and toiletries, baby foods and photography. This has led to an increasing dependence on dispensing. During the same time there has been an increasing number of dispending doctors (Turner 1994). Futter (1994) noted

that the pharmacist has lost market share to supermarkets and dispensing doctors in prescription and OTC medicines.

South Africa has seen a decline in average gross profit margins for small retailers. According to group leader of listed health and beauty retailer New Clicks Holdings (NCH), Trevor Honneysett, the new pharmacy dispensing fees had effectively lowered the pharmacy industry's gross profit margins from an average of 29% to 16%, or sometimes less (if a pharmacy has a much higher proportion of sales of over R100). This resulted in a 44% fall in the industry's average gross profit margin (Bolin 2004).

While larger groups such as New Clicks would be able to absorb this decline by improving efficiencies and cutting costs across its wide chain of stores, as well as by boosting sales volumes at existing Clicks stores by introducing pharmacy dispensaries, smaller pharmacies would not be able to survive. This was because they lacked the capacity to improve their sales volumes or cut costs enough to compensate for the lost margin (Bolin 2004).

Honneysett further noted that small retail pharmacies will soon be extinct in South Africa unless something is done about the pricing and dispensing regulations (Bolin 2004).

2.3 Impact of Mega-retailers on small retailers

Literature shows that studies in the past have discussed the impact of discount chain stores on small retailers. Many of them identified the negative impact of this (Arnold 1998).

Arnold’s (1998) research stated that the entry of Mega-retail chains has the following negative impacts on communities. In his research he found that the market entry of large format retailers:

- Caused growth and decline in various commercial sectors in the down town business core;
- Resulted in economic decline in nearby markets;
- Disrupted market efficiency; and

- Increased environmental pollution.

2.3.1 Expansion and consolidation in the retail industry

The main problem within the retail pharmacy industry, as a business is the emergence of mass-retailers, also known as mega-retailers. The industry is characterised by intensive roll-up strategies, where mass-retailers offer to buy small retailers and incorporate them or simply move to locations where independent retailers can barely survive due to price competition (Taylor and Archer 1994).

Mega-retailers are widely criticized as causing devastation among smaller retailers, particularly in mid-sized markets in the United States. Others argue that small retailers can survive "in the shadow of the retail giants," by offering levels of customer service that the mega-retailers cannot provide due to their very size (Cotton and Cachon 2007).

These stores continue to take market share from independents and middle market chains. As a result they often drive the weaker players out of business. No small-store retailer is immune to the effects of mass merchants and other discounters, but independent grocers have proved to be particularly vulnerable. During the last two decades, the market share for independent grocers has fallen from 42 to 20 per cent. Independent drugstores have not fared well either (Andersen 1997).

This phenomenon has been the main reason why small independent retailers are fighting for survival.

2.3.2 Low Margins, Downsizing and Lost customers

Research into the impact of mega-retailers on small retailers was further explored by Cotton and Cachon (2007). They formulated the following hypotheses on the extent to which mega-retailers were affecting the business of small independent retailers;

a. Small retailers have seen a drop in gross sales since mega-retailers came to the city;

b. Small retailers have seen less out-of-city clientele since mega-retailers came to the city;

c. Small retailers can identify clearly their competitive advantages and disadvantages as compared to mega-retailers;

d. Small retailers can clearly identify the competitive advantages and disadvantages of the mega-retailers;

e. Small retailers are involved in planning innovative competitive strategies to enable them to better compete with mega-retailers;

f. Small retailers located within five miles of the mega-retailers have seen a significantly stronger decrease in gross sales, as compared to retailers located further away;

g. Small retailers located within five miles of the mega-retailers have seen a significantly stronger decrease in profits, as compared to retailers located further away.

2.3.3 Research Proposition 1

Small independent retailers have been affected by the legislative changes allowing ownership of pharmacies by mega-retailers.

Throughout the literature, four main themes occur on the aspects of business which have affected small independent retailers: Consolidation and expansion; decreased margins; downsizing and lastly lost customers.

- Consolidation and Expansion: Large retail companies have been quick to exploit opportunities for expansion and consolidation in the business horizon (D'Andrea and Lopez-Aleman 2006).

- Many small independent pharmacy retail outlets to operate at a loss (Stawarska and Stefanczyk 2010).

- Due to the negative impact that large retailers have on the economic health of small businesses, the latter need to keep their costs at a lowest level. Since employees are such a great part of the cost factor, the least amount of employees must be retained (Ricks and Pettypool 2008).

- Small retailers have seen less out-of-city clientele since mega-retailers came to the city (Cotton and Cachon 2007).

2.4 Tools and Techniques for strategic management.

The following concepts on strategic management tools and techniques have been identified in existing literature as the basis of the framework on which businesses review and implement their survival strategies.

2.4.1 The Five Competitive Forces

The subject of strategic management has been of interest in business because it is an attempt to understand how a business can achieve and sustain its competitive advantage.

Literature shows that pioneers in the study of strategic management such as Porter (1985) see strategic management as a survival mechanism within the existence of five basic competitive forces:- threat of new entrants, bargaining power of buyers, rivalry between existing competitors, threat of substitute products and bargaining power of suppliers. Porter's theory is based on the premise that the success of a company's competitive strategy depends on how it relates to its environment.

The essence of competitive strategy for a company is to find a position in its industry where it can best cope with these competitive forces or can influence them in its favour (Porter 1980a).

The dominant paradigm in the field of strategic management research has been the competitive forces approach that posits that the intensity of competition determines the profit potential of individual firms (Porter 1980a).

Influences such as economic restructuring, intensified competition, government regulations, and technological advances have resulted in heightened environmental turbulence and uncertainty for small business firms (Coven and Slevin 1989). As further noted by Covin and Slevin, small businesses are particularly susceptible to environmental influences due to limited resources and the devastating consequences of poor managerial decisions.

In developing a competitive strategy, the ultimate objective is not only to deal with the forces affecting competition, but to mould them to the firm's advantage (Bartlett 1988).

2.4.2 Resources Based Capabilities Approach to strategy

Perhaps the another aspect into the field of strategic management shows an interest in the role in which resource-based capabilities have on attaining competitive advantage (Collins and Montgomery 1995).

Capabilities – based competition is what Stalk, Evans and Shulman (2000) discussed as a new source of competitive advantage. They described this approach as being the starting point to a relentless effort to satisfying customer needs.

The theory on resource based capabilities follows four steps which a company may follow:

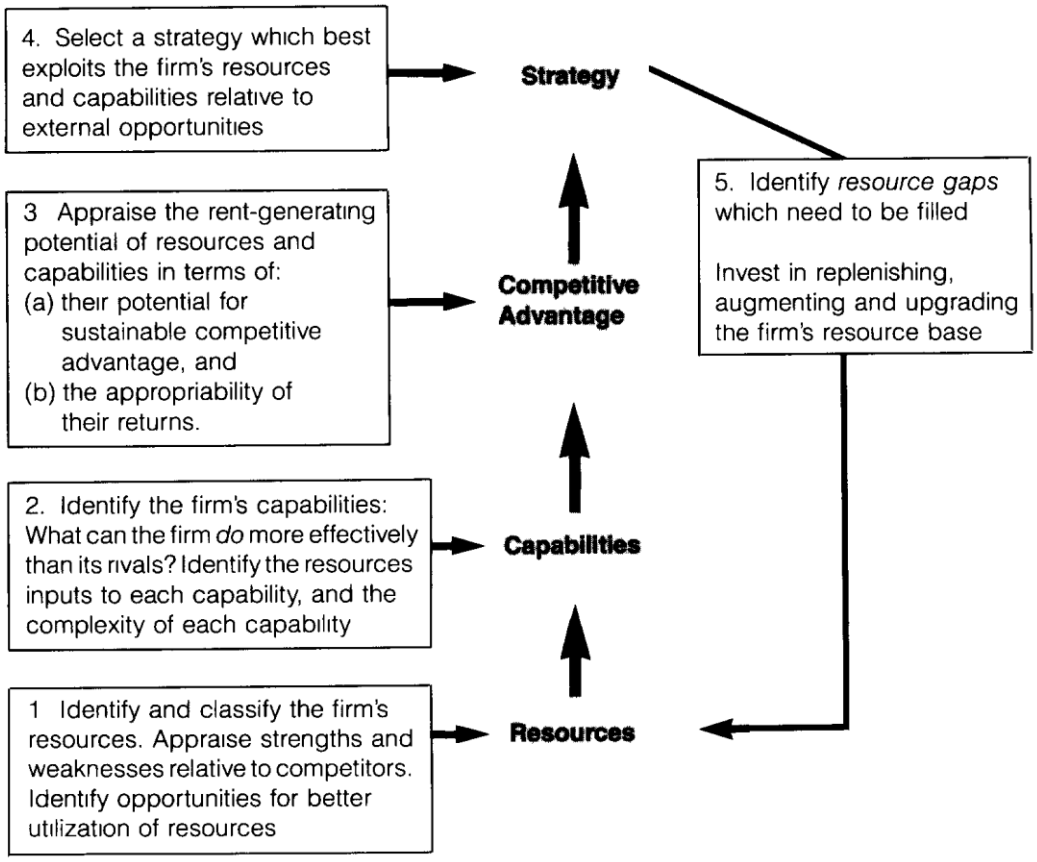
1. Shift strategic framework to achieve strategic goals.
2. Organise around the chosen capability and make sure employees have the necessary skills and resources to achieve it.
3. Make progress visible and bring measurements and rewards into alignment.
4. Do not delegate the leadership of the organisation.

Source: Stalk, Evans and Shulman 2000

From a resource-based view every firm is a unique bundle of resources that determines which external circumstances afford opportunities and which pose threats. Further comparative advantages and disadvantages in resources are tantamount to strength and weaknesses, respectively, which engender cost and differentiation advantages or disadvantages in competitive product markets (Day and Wensley 1988, Porter 1980b).

The diagram below is how Grant (1991) summarised the theoretical framework for resource based strategy analysis:

Figure 1. A Resource-Based Approach to Strategy Analysis: A Practical Framework



Source: Adapted from Grant 1991

Grant (1991) formulated a theoretical framework which concluded that a firms most important resources and capabilities are those which are durable, difficult to identify and understand, imperfectly transferable and not easily replicated and which the firm possesses clear ownership and control.

2.4.3 Core Competencies Approach to strategy

Prahalad and Hamel (2001) discussed the concept of core-competence as that quality which provides potential access to a wide variety of markets. Companies need to identify their core competencies in order to fully exploit their resources. They further defined a corporate's core competence as "the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies".

Among the first distinctive competencies identified by those trying to understand persistent performance differences between firms was general management capability. Whether profit centres or cost centre managers, general managers can have a significant impact on the strategies a firm decides to pursue and on the ability of a firm to implement the strategies it develops (Barney and Arikan 2005).

According to Prahalad and Hamel, a core competence should be difficult for competitors to imitate. An organisation in pursuit of using core competencies as a competitive advantage has to structure their total organisation to support that, as it requires communication, involvement, and deep commitment to working across organisational boundaries (Prahalad and Hamel 1990).

As much as core competencies will give a company its competitive edge, they need to be sustainable and appropriate (Kay 1993). A distinctive capability will be sustainable only of it persists over time and appropriate only if it is exclusively, or principally benefits the company which holds it (Kay 1993).

2.5 Survival Strategies for small independent retailers.

The competitive environment of retailing is becoming increasingly hostile and complex, and one means of ensuring long term survival is through the attainment of a competitive advantage (Ellis and Kelley 1992). Strategy has been defined as “the match an organisation makes between its internal resources and skills and the opportunities and risks created by its external environment (Grant 1991).

Mintzberg (1987) uses a metaphor about crafting strategy, in which managers are described as craftsmen, and strategy their clay. Like the potter, they sit between a past of corporate capabilities and a future of market opportunities.

The concept of survival strategies can be understood by exploring existing literature on generic competitive strategies (Porter 1980a), strategic directions available to retailers (Jussila, Lotvonen and Tykklainen 1992), and differentiation strategies (McGee 1996).

2.5.1 Porter’s Generic Competitive Strategies

Porter (1980a) proposed three generic strategies which a company needs to obtain in order to obtain a competitive advantage, namely cost leadership, differentiation and focus.

According to Porter, companies need to obtain a combination of certain resources, skills and systems in order to implement these competitive strategies. In addition, different leadership styles and corporate cultures may influence the implementation of these strategies.

- Cost Leadership: Porter (1980a) suggested that a firm can gain a competitive advantage through cost leadership. The retailer focuses on lowering the cost of goods, in order to be the lowest competitor whilst still maintaining profits. Companies make profit on the volumes sold and gain market share through economies of scale.

Further analysis on cost leadership as part of a competitor centred strategy was analysed by Mason and Mayer (1993) who found that cost leadership is effective when:

- Consumers are sensitive to price
- Competition is based primarily on price
- Differentiation (identifying distinguishing product or service features) is difficult to achieve.

- Differentiation

The strategic use of differentiation is designed to create a perception of uniqueness in the minds of customers (Mason and Mayer 1993).

A differentiation strategy would require the retailer to be unique on one or more dimensions valued by the consumer. Management would select those attributes consumers perceive to be important and then uniquely position the store in order to meet those needs (Turner 1994).

A business can distinguish itself or its products in a myriad ways as part of its positioning strategy: superior service, a strong brand name, innovative features, and superior product quality are some favoured routes (Mason and Meyer 1993).

- Focus or Specialization

This strategy would require a firm to adopt a specialised strategy within a narrow competitive scope. The retailer following this type of strategy would strive to achieve a competitive advantage within the industry (Turner 1994).

2.5.2 Strategic directions available to retailers

Jussila, Lotvonen and Tykklainen (1992) in their study of retail strategies in rural Finland , identified three strategic directions available to retailers namely:

1. Adaptation: operating as effectively as possible with in the prevailing, often hostile, market conditions.

2. Diversification: expanding product ranges and/or offering other services in order to maintain or increase market share in what may be declining market.
3. Expansion: increasing the number of customers apparently through a focus on attracting customers from tourist visitors to the locality.

2.5.3 Competitive strategy formulation in small firms

According to Lasher (1999), a significant body of knowledge exists concerning strategy in the context of large firms. However, little has been developed about applying strategic principles to small businesses.

The application of Porter's (1980a) classification of generic strategies has evoked wide-ranging enquiry in retailing. A number of researchers have therefore considered retailers' strategic opinions in terms of cost, differentiation, and focus (McGee 1996). The development of variations in core generic competitive strategies in retailing has led to the identification of price leadership, sales service differentiation, service and personality augmentation and merchandise differentiation as alternative strategies (Megicks 2001).

Beal (2000) conducted a sample survey which attempted to examine the competitive strategy adopted by 101 small firms. According to the results of the study, the small manufacturing firms adopted five types of competitive strategies. Findings of the study indicated that the small firms utilised innovation differentiation strategy, marketing differentiation strategy, low cost leadership strategy, quality differentiation strategy and service differentiation strategy.

Further research by Hashim and Zakaria (2010) argue that, by performing their core internal activities such as production, marketing, sales service, human resource management, technology development and procurement efficiently and effectively, small independent firms can offer value to customers, as well as gain their competitive advantage.

In understanding how competitors shape strategy, Kotler and Keller (1993) observed that in order for companies to successfully implement the best position strategies,

they must pay attention to their competitors. He further noted that the most notable strategies for dealing with competition for market leaders are:

1. Expanding the total market: in order to be the dominant firm or market leader by getting more customers and increasing usage.

2. Defending the existing market share: such as proving a premium performance or service.

3. Expanding market share: in order to increase profitability.

Another school of thought by Kotler and Keller (1993) further discussed how market nichers, who are leaders in small markets, normally avoid competing with larger firms. They focus on positioning away from the dominant brand with a high price.

The key idea in nichemanship is specialisation (Kotler and Keller 1993) of which the following may be implemented:

- End-user specialist - The firm serves only one type of end user.

- Quality Price specialist - The firm operates at the low or high quality end of the market.

- Service Specialist -The firm offers services not available in other firms.

- Product or product line specialist - The firm carries only one product.

2.5.4 Research Proposition 2

Small independent retailers are using various survival strategies in order to survive against mega-retailers.

- The literature shows four recurring themes on survival strategies being used by small independent retailers; service specialisation, pricing strategies, niche strategies, innovation differentiation.

1. Service Specialisation

One of the most mentioned competitive advantage opportunities for smaller firms is the provision of personal, value-added customer service (Andersen 1997). Taylor and Archer (1994) further argued that small retailers can survive in the shadow of retail giants by adopting levels of customer service that mega-retailers cannot provide due to their size.

Further studies in competitive strategy by Barry (2001) raised pointers on the five retailing best practices in service specialisation which can improve success, namely the "Five Pillars of Retailing". Barry's pillars are:

1. Solve customer's problems;
2. Treat customers with respect;
3. Connect with customer's emotions;
4. See the fairest (not lowest) price;
5. Save customer's time.

The above pillars form part of the broad concept of service specialisation. For the purposes of this study, the following specialised services were extracted, namely: Polite customer service, Home delivery service, Extension of credit to customers, Telephonic orders and Customer visits.

2. Pricing Strategies

Where differentiation is hard to achieve, Porter (1980a) suggested that a firm can gain a competitive advantage through cost leadership. The retailer focuses on lowering the cost of goods, in order to be the lowest competitor whilst still maintaining profits. Companies make profit on the volumes sold and gain market share through economies of scale. The pricing strategies discussed by Beal (2000) mimics what Porter (1980a) termed a focus low-cost strategy.

Further to this argument, Beal (2000) suggested that a low cost leadership strategy would be one way for a firm to gain a competitive advantage. Empirical research supports the effectiveness of this approach among selected small retailers, especially those that operate in hostile and intensely competitive environments

(McGee 1996). For the purposes of this study, the following were identified as pricing strategies for small retailers, namely: Variety of goods, Lower Prices and Discounts.

3. Niche Strategies

Kotler and Keller (1993) discussed how market nichers tend to focus on positioning away from the dominant brand with a high price. This could either be a niche product or a niche service. Kotler and Keller use the term “end-user specialist” for niche services, where a particular service is designed for a specific user. He further discusses product or product-line specialist for niche products. For the purposes of this study, the two niche strategies available for small independent retailers are either for niche products or niche services.

4. Innovation Strategies

Beal (2000) proposed that small firms which adopt innovation differentiation during their growth stage will lead to a higher level of performance. Further to this, Cotton and Cachon (2007) conducted a study into innovative competitive strategies for small retailers who were facing competition from mega-retailers termed “mega-box” retailers. In the research, three qualitative questions were used to verify this hypothesis. These were; what strategies, if any, have you taken to compete against other retailers? How can you compete with the large discount retail chains? Have you considered;

a) Associating with other retailers in your area in order to compete against box retailers?

b) Starting a joint venture with other retailers in your area in order to compete against box retailers?

c) Associating with another box retailer who is not in direct competition, but rather complementary to your business?

The findings by Cotton and Cachon (2007) showed that many retailers were actively resisting mega-retailers by using specific strategies against them. One of the major strategies used was termed the “Vacuum Strategy” which amounted to small retailers refusing to carry many brands as possible that are carried by mega-stores;

the refusal to service such brands, and the refusal to have anything to do with mega-retailers, any kind of alliance or cooperation with them.

Beal (2000) describes innovation differentiation as involving the production and marketing of new products with unique features or performance characteristics. The six competitive methods that load on this factor are: research and development of new products; marketing of new products; selling high-priced products; obtaining patents/copyrights on new products; innovative marketing techniques; and improving sales force performance.

5. Marketing Differentiation

Studies by Cotton and Cachon (2007) showed that differentiation was one of the main aspects of a successful strategy adopted by resisting retailers against mega-retailers. Further to this, Beal (2000) proposed that small firms can gain a competitive advantage through marketing differentiation. Beal (2000) defines marketing differentiation as creating a perception in the mind of a targeted customer that the firm's products are distinctively different from those of their competitors.

The five competitive methods that load on this factor are building brand or company identification, advertising and promotional programs, securing reliable distribution channels, improving existing products and producing a wide range of products (Beal 2000). According to Porter (1985), differentiation as a strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, feature, after-sale support, and service.

2.6 Conclusion of Literature Review

In summary to the literature review, two important points have emerged. The first point is that South Africa permitted corporate ownership of pharmacies for the first time in 2003, stemming from legislative changes. The other point is that the result of these legislative changes has been the consolidation of retail pharmacies, which is also a common trend in the industry (Lowe and Montagu 2009).

Literature also shows that the trend of mega-retailers taking over small independent retailers is not only limited to the South African pharmacy retail sector, but a global phenomenon (Cotton and Cachon 2007).

An unfortunate result of this practice has been the battle for survival for the small independent retailers who find it difficult to compete on price, therefore being forced out of business by market forces.

The literature review further shows that survival strategies for retail companies are primarily based on Porter's generic competitive strategies namely cost leadership, differentiation and focus (Porter 1980a).

The literature has also shown that in order to survive, small retailers need to identify resource gaps and then improve on them in order to stay competitive in business (Andersen 1997, Stalk et al 2000).Small retailers also need to improve on their core competences (Prahalad and Hamel).They also need to explore competitive strategies (Porter 1980a, Beal 2000) in order to survive amidst the macro-economic changes.

Drawing on the information from the literature review, the following survival strategies were identified:

1. **Service Specialisation**

    - Polite customer service
    - Home delivery service / Telephonic orders
    - Extension of credit to customers
    - Customer visits

2. **Pricing strategies**

    - Variety of goods

- Lower price
- Discounts

3. **Specialisation / Niche strategies**
    - Niche / Specialised product
    - Niche / Specialised service

4. **Innovative Strategies**
    - Association with other retailers
    - Start a Joint Venture
    - Complementary retailer
    - Innovative Differentiation

5. **Marketing Differentiation Strategies**
    - Building brand and company identity
    - Advertising
    - Distribution channels
    - Improve existing products
    - Produce a wide range of products

6. **Vacuum Strategy**
    - Refusal to carry certain brands and letting customers know about decision

CHAPTER 3: RESEARCH METHODOLOGY

This section outlines the methodology used for this research. The first part discusses the literature relating to qualitative research. Thereafter a discussion on research design and research instrument follows. In closing the chapter, data collection and analysis are done thereafter followed by a discussion on ensuring the validity and reliability of this study.

3.1 Research methodology

The method of research used for this study is a qualitative analysis which aims to get an in depth discussion into the research problems. Qualitative research is an exploratory process which aims to gain a better understanding of multiple, social constructions of behaviour, and the meanings attributed to the behaviour in a particular local context, while quantitative research is population oriented, qualitative research is “case oriented” (Steckler 1992).

Qualitative methodology involves quite a number of different methods, procedures and research designs (Creswell 2003).

Qualitative research comes with its disadvantages. This type of research has often been regarded as of secondary importance, and of relatively less value than quantitative research (Gable 1994). However, quantitative research is so well established in the psyche of the research community that many researchers do not accept the validity of any other kind of research. It is then claimed that qualitative research is “soft” research, and therefore can only add little to the real body of knowledge except in so far as it suggests new directions for quantitative or hard research (Remenyi, Williams, Money and Swartz 1998).

Qualitative researchers typically study a small number of individuals or situations, and preserve the individuality of each of these analyses, rather than collecting data from large samples and aggregating the data across individuals or situations. Thus, they are able to understand how events, actions and meanings are shaped by the unique circumstances in which they occur (Maxwell 2004).

The reason why a qualitative approach is favourable for this type of research is that data is analysed through an inductive, on-going and evolving process of identifying themes within a particular context (Miles and Huberman 1994).

Qualitative research involves in-depth interviews and questionnaires to collect, analyse and interpret data by observing how respondents react (Creswell 2003). The interviews for this research were both in-depth and semi-structured to provide guidance towards answering the research propositions.

3.2 Research Design

The research method was in the form of in-depth, structured interviews in order to collect data from the respondents.

Choosing a research strategy depends largely on the background of the researcher (Remenyi et al 1998). The research involves a social science aspect since it involves legislation and its impact on business.

The approach used in this study was a descriptive / interpretive approach and implies that every event studied is a unique incident in its own right (Remenyi et al 1998).

The advantage of this approach is that the researcher is able to obtain both normative and factual data from industry experts and professionals. The disadvantage of this method would be that respondents may not be willing to disclose all information since some survival strategies would be protected as trade secrets. There is also the likelihood that the researcher may not capture the information as accurately, due to their own interpretation (Remenyi et al 1998).

3.3 Population and sample

3.3.1 Population

The population used was all registered retail pharmacy owners who were members of the South African pharmacy Council (SAPC). Also included in the population are members of the Pharmaceutical Society of South Africa (PSSA) which has an affiliated branch specific to retail pharmacists.

3.3.2 Sample and sampling method

The total sample used for this study comprised of seventeen respondents, fifteen being retail pharmacists and two industry experts. Due to the sensitive nature of the retail pharmacy business environment, the respondents were promised to remain anonymous.

The fifteen respondents were pharmacists made up of a convenience sample selected due to their proximity to the Gauteng region. This sample was selected based on the basis of operating independently to any mega retail chain stores. These entities needed to be owned and operated by registered pharmacists.

A further two respondents were interviewed who provided industry expertise on pharmacy retail trends and survival strategies.

Table 2: Profile of respondents

DESCRIPTION OF RESPONDENTS	NUMBER SAMPLED
Pharmacy Business Owners	15
President SAPC committee (1st Expert)	1
Executive Director PSSA (2nd Expert)	1

3.4 The research instrument

The questionnaire in Appendix A was used for the semi-structured and in-depth interview. The importance of interviews is that they help to give respondents a chance to share information in a comfortable and familiar manner (Creswell 2003).

A semi-structured interview is a verbal exchange where one person, the interviewer attempts to elicit information from another person by asking questions (Longhurst 2003). The advantage of using this approach is that it allows respondents the freedom to reflect on their thoughts and actions on survival strategies for their independent pharmacies.

The in-depth interview is a technique that is used in exploratory research where respondents are probed on topics in a relaxed environment to maximise the richness of the discussion and data collection (Creswell 1998).

The interview guide was based on the theories applicable to this research. All interviews were explained to the respondents in order to provide clarity on the purpose of the research. The aim was to provide a confidential yet factual discussion on the research project.

The first set of research questions were structured around the profile of each pharmacy owner in terms of the viability of their business. The first research proposition aims to obtain insights relating to the effect of legislation on retail pharmacy ownership. Respondents were expected to provide some aspects which have affected them since the laws were implemented. An analysis was then done on whether this information is consistent or contrary to what has been revealed by the literature review.

The second research proposition aims to obtain the opinion of respondents on which survival strategies they have adopted in order to survive the macroeconomic changes that have taken place in the retail pharmacy industry.

Both pharmacy business owners and the industry experts were issued the same research instrument, reason being that the industry experts are also directly involved

as independent pharmacy owners over and above being board executives in retail pharmacy associations namely PSSA and SAPC.

3.5 Procedure for data collection

A total of seventeen respondents were interviewed. This group comprised of fifteen independent pharmacy owners, who were registered pharmacists as well as the two industry experts. The interviews were pre-arranged either via the telephone or e-mail. The data collection method used included taking down detailed notes and recording the interviews. The research instrument is attached in Appendix A.

3.6 Data analysis and interpretation

Qualitative researchers are often more concerned about uncovering knowledge about how people feel about the circumstances in which they find themselves, than they are in making judgements about whether those thoughts and feelings are valid (Thorne 2000). This type of research therefore is less reliant on figures and more on ideas, beliefs, and opinions.

According to Miles and Hurberman (1994) a system of data management which is suitable for this type of research may be used. This system would involve three linked sub-processes namely data reduction, data display and conclusion drawing.

The substance from the interviews were analysed in order to access the content where specific characteristics and themes were identified (Zikmund 2003). Transcripts from recorded interviews were reduced into data summaries for analysis during the data reduction stage in relation to the key research propositions.

The following procedure was used in analysing the data (Leedy and Ormrod 2001):

1. The data was viewed in order to get a sense of the data in its entirety.

2. A content analysis was done in order to identify patterns, themes, or biases.

3.7 Limitations of the study

The aim of the research was to get opinions from various retail pharmacists and not intended to be conclusive in any way.

- The convenience sample taken was from Gauteng which is an urban setting, therefore rural independent pharmacists may have a different view on their survival strategies mainly because mega-retailers do not operate there.
- The respondents in this study were not willing to give sensitive information as this is a highly competitive industry.
- The availability of information about the reason for closure of retail pharmacies was not readily available.

3.8 Validity and Reliability

Joppe (2000) states the following explanation of what validity is in quantitative research. Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are.

3.8.1 External validity

External validity will help to generalise learning to groups other than the population which is being researched (Neuerndof 2002).

According to Neuendorf (2002), validity of the data may be sought through the interview process and statements in the interviews through a document analysis process, through a method of triangulation (by interviewing experts, respondents and document analysis).

Triangulation is typically a method used in qualitative research for improving the validity and reliability of research or evaluation of findings (Golafshani 2003).

3.8.2 Internal validity

Internal validity is important because it ensures that the method of data collection does not differ. The research instrument should therefore be consistent for all the respondents together with the semi-structured questions.

According to Schnetler (1989), the importance of evaluating the methodology should satisfy three objectives:

- It should meet the aims of the research.
- It should reflect accurate information on the topic of the study.
- It should be practicable given the available time and resources.

The above process using the research instrument was thus followed in order to maximise the validity of this research project.

3.8.3 Reliability

Joppe (2000) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology then the research instrument is said to be reliable.

Due to the small sample size, the results are not generalizable to the population.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

In this chapter, the results of this research study are detailed. The results of the interviews have been presented below in tabular form and are related back to the propositions.

A total of seventeen respondents were interviewed. All interviews were completed by the researcher and due to the competitive nature of the business, respondents were assured that the information would remain confidential and no names would be published.

4.2 Demographic profile of respondents

4.2.1 Responses to PART A: Characteristics of the sample firm.

Part A, Questions 1 to 4 was used to determine the suitability of the sample chosen for the study.

Part A was designed to determine the longevity of each sample firm since the introduction of the legislative changes. Since these changes were introduces almost eighteen years ago, surviving firms would be able to tell a better story with regards to how they have adapted to the environmental changes.

Results to Part A show that of the total fifteen independent pharmacies, only one had been operating for more than eighteen years and had seen many of her colleagues close down their businesses. The rest of the pharmacies had been operating for less than fourteen years. This result is in line with what the first expert from PSSA mentioned in that many pharmacies have closed down in the past eighteen years due to competition from mega-retailers.

Questions 2 and 3 were designed to determine the size and type of legal entity of the firm. This would verify whether it is a business owned an independent

pharmacist, or by a mega-retailer. The question about size was used to determine if the company would be labelled as a small retailer as opposed to being a larger retailer based on the number of employees. These two questions were the determining factors in terms of the eligibility of the firm for further questions. The result of the question about size was that nine pharmacies had five to thirty employees whereas six companies employed five or less employees. This is in line with the staff component for most small independent retailers.

With regards to the question on the type of ownership or legal entity of the firm, results showed that twelve companies were operating as close corporations by a Sole Proprietor. Both these answers are in line with the expected findings because mega-retailers are mostly located in busy shopping malls. Most independently owned are usually in smaller shopping centres and located the more remote parts of the urban areas and amongst residential shopping centres.

Question 4 was designed to determine whether the business was profitable or not. All fifteen respondents confirmed this to be the case. The aim of this question was to determine the viability of the business as an indicator of a healthy business.

4.3 Summary of the results

Analysis of the results identified that the legislative changes have had a negative impact on the business of retail pharmacy. The results observed in small retail pharmacies include that some companies have had to close down, down size, and experience decreased margins. Mega-retailers have consolidated a number of previously independent retail pharmacies and will continue to do so due to their financial muscle.

The other important finding in this research is that there are some, although few profitable retail pharmacies. This is mainly because of their location in relatively small shopping centres where mega-retailers are not interested. It can therefore be concluded that their survival is not only due to their own strategic survival efforts to stay afloat, but rather due to them being in locations which are simply not attractive for bigger businesses.

4.4 Results pertaining to Research Proposition 1

4.4.1 Responses to PART B: Major aspects affected by legislative changes.

Research Proposition 1 was designed to explore the broad aspects of the pharmacy retail business affected by the legislative changes allowing non-pharmacists to own and operate retail pharmacies. In the process of gathering data, other issues which have resulted from the changes were also discussed in depth.

After analysing the content of the results, four key themes emerged around the aspects of business which have been affected. Major themes emerging from the content analysis are discussed in Table 3.

Table 3: Major aspects which have been affected by legislative changes.

Theme 1 – Low Margins

- Many respondents identified that they had experienced low margins as a result of price competition with mega-retailers. Not only are mega-retailers able to buy in bulk, but they also have a wide variety of products which customers prefer.
- Other respondents mentioned that the pricing regulations which allowed Doctors to dispense medicines have also affected their profit margins. Customers tend to cut out pharmacies and go directly to a dispensing Doctor.
- In addition to this , pricing of medicines is also regulated by Section 22G of the Medicines Amendment Act which controls how much profit a pharmaceutical product can make when sold in a pharmacy.
- The pricing regulation also determines the stock price, namely the Single Exit Price which controls how much a pharmacy must pay for a pharmaceutical product.
- Further to this observation, the combination of ownership and pricing

regulations imposed by the government were seen by some respondents to have killed the business for independent pharmacists. Various concerned groups of pharmacists had been established to challenge these regulations without any success.

Theme 2 – Consolidation

- One respondent mentioned that they had been approached by a Mega-retail chain for a buy-out which they were concluding. The Mega-retailer also offered the respondent a salaried job for the future.
- Other respondents had not considered consolidation because they were still in business and making a profit.
- After the legislative changes, many small retailers sold their small businesses to Mega-retailers. An interesting occurrence highlighted by other respondents shows that the Regulatory body which issues licences to Mega-retailers does so despite having another small retailer in the same location.
- The first expert from the PSSA also confirmed that there has been a general decline in the number of independent pharmacies since the introduction of the regulatory reforms. He further stated that the general trend tends to be for independent retailers to be bought out by mega-retailers who have been given licences by the Department of Health.
- The Expert further concluded that the result of this practice has been the closure of numerous independent pharmacy retailers who simply could not compete on price.

Theme 3 –Lost Customers

- Many respondents mentioned that they had seen fewer customers since the entry of mega-retailers.

- The few respondents who had not been affected were in locations which were densely populated such shopping centres located in residential areas.
- Many customers had closed their accounts with small retailers in favour of mega-retailers who issue loyalty points and discounts on other front shop items.
- Few respondents had a loyal customer base which they have kept due to their long standing relationships with them.

Theme 4 – Downsizing

- Many small retailers have significantly reduced their staff complement as a means to keep operational costs low.
- Another respondent mentioned that in order to cut costs, employees consist mainly of casual workers such as students and pharmacy assistants.
- Pharmacy assistants are cheaper to hire than pharmacists which is why most respondents have only one responsible pharmacist working with assistants.

In conclusion to the results above, the most recurrent theme on aspects of the business which had been affected was that of low margins. The next recurrent theme was that of lost customers. It could be deduced that these two are interlinked since customers do contribute to margins. If customers are low, one could expect to have low margins.

4.5 Results pertaining to Research Proposition 2

4.5.1 Responses to PART C: Survival strategies adopted by independent pharmacy retailers.

Research Proposition 2 was designed to explore which survival strategies had been adopted by existing retail pharmacies. After analysing the content of the results, five

key themes emerged around the survival strategies. These themes are listed in Table 4.

Table 4: Survival Strategies of independent retail pharmacies.

Theme 1- Improved Customer Service / Service Specialisation • All fifteen respondents to this question reiterated the importance of service to customers especially within the retail sector. • Customer service emerged as one of the main reasons that respondents continue to survive. • Most of the pharmacists also confirmed that they had enjoyed customer loyalty because of familiarity and the friendliness of their long serving staff. This is what seems to be different with mega-retailers since there is hardly any personal interaction or familiarity.
Theme 2 - Offering additional Services • All respondents offered home delivery within a certain distance from the stores as well as taking telephonic orders as a means to provide an extra service. • Some respondents had in-house clinics and nursing sisters for testing blood glucose levels, blood pressure and injections for vitamin B and flu vaccination. • Some in-house clinics offered immunisation of babies as well as primary health care services. • Offering additional services is one of the most common trends for survival in small pharmacies. Some mega-retailers also have in-house clinics but may appear to some as being impersonal as compared to smaller stores.

Theme 3 – Niche Strategies

- One pharmacy confirmed to offering a niche service to their customers due to their location within a Diabetic Health Centre.
- The niche service offered was a Diabetic Wound care service which had specialised products such as bandages and a podiatrist for diabetic wound care.
- Another pharmacy offered a full range of homeopathic medicines as well as an iridologist in addition to the dispensary as a niche strategy specialising in alternative medicine.
- The rest of the pharmacies did not provide any niche services or products to their customers apart from the dispensary.

Theme 4 – Innovation Differentiation

- One pharmacist had formed an association with one Mega-retailer since they had opened another pharmacy within close proximity to his. He had agreed to be bought out by the Mega-retailer.
- None of the fourteen pharmacies had joint venture agreements or complementary businesses.
- In light of this observation, the second expert from noted that most of the independent retailers were either in a location such as a small shopping complex ,where mega-retailers were not interested due to the small size or they were located nearby to Doctor's rooms. These two factors seem to be the reason why some of the retail pharmacies are still able to operate despite hostility.

Theme 5 – Differentiation

- Two pharmacies agreed that building their brand was important in their marketing differentiation strategy as part of gaining a competitive advantage.
- Five pharmacies used the local newspapers and some in-store promotional posters as well as signage to improve their marketing. They mentioned that due to the regulation restricting the marketing of medical products in the media, they could not specifically mention names of medicines.
- One pharmacist mentioned that there was a pending case against some of the mega-retailers by the Department of Health who were going against these advertising rules.
- Two pharmacies had improved their distribution channels by using direct delivery services for chronic patients from their suppliers.
- None had improved existing products.
- Six pharmacies confirmed they carried a wider range of products such as cosmetics, toys, sports energy drinks and snacks in order to attract customers.

In conclusion to the results above, the most recurrent theme was that of improved customer service. All respondents addressed customer service in different ways within their respective stores. Due to their size, smaller retailers are able offer a more intimate relationship with their customers, thereby increasing loyalty.

CHAPTER 5: DISCUSSION OF THE RESULTS

6.1 Introduction

The objective of this chapter is to discuss the results of the semi structured questionnaire and in-depth interviews done with the respondents. Each question arises from the theoretical framework which has been developed by the literature review. The questions from the questionnaire are highlighted in bold print and followed by an interpretation and analysis of the responses that were received. The chapter then closes with inferences based on the two main questions.

5.2 Demographic profile of respondents

The results presented in Chapter Four, relating to the characteristics of the sample firm is consistent with the theory according The Pharmacy Act, 1974 (Act No. 53 of 1974).The Act defines a pharmacy as “any place wherein or from which any service specially pertaining to the scope of practice of a pharmacist is done” (Department of Health 2003, Government Gazette 24770 C1, pp.3).

The results concluded that fourteen independent pharmacies were operating in less than eighteen years since the regulatory changes regarding pharmacy ownership were first drafted in 1994. Only one has been operating for more than eighteen years. Further to this information, twelve independent pharmacies were operating as a Close Corporation and two as a Sole Proprietor. All fifteen businesses were profitable.

The first sets of questions were aimed at determining whether the businesses chosen would fit the profile of the respondents required to complete the rest of the questionnaire, that of being independent retail pharmacies which are independently owned by pharmacists. These results were consistent with the findings.

5.3 Discussion pertaining to Research Proposition 1

Only one respondent advised that the business had been affected in terms of expansion and consolidation. The respondent advised that they would be bought off by one of the mega-retailers in the next few months. This observation is linked to the theory by D'Andrea and Lopez-Aleman (2006) that large retailers tend to be quick to exploit opportunities for expansion and consolidation in the business horizon.

In addition to this information, none of the independent pharmacies had relocated as a result of the entry of mega-retailers and none had formed cartels or colluded with other pharmacies. With regards to decreased margins, five pharmacies agreed to those aspects to being the most affected by major retailers. This observation is in line with Planting (2010) that profits for small independent retailers are under pressure because of regulated pricing and without the economies of scale enjoyed by the large retailers, they struggle to compete on price.

In terms of lost customers and low volumes, five respondents confirmed that to be the case. This is in accordance with results from an empirical study by Cotton and Cachon (2007) which deduced that small retailers suffered lower sales and clientele since the arrival of mega-retailers.

Another major aspect of the businesses which has been affected is downsizing in order to keep operating costs low. A total of four businesses agreed that downsizing had been implemented in order to stay afloat. This observation is in line with Ricks and Pettypool (2008) who stated that due to the negative impact that large retailers have on the economic health of small businesses, the latter need to keep their costs at a lowest level. Since employees are such a great part of the cost factor, the least amount of employees must be retained.

In conclusion to the impact of mega-retailers, the second expert from SAPC further stated that the business of independently owned community pharmacists will no longer be viable in the next few years due to the hostile business environment. He noted, however that the profession of pharmacists would still be in demand because more and more stores were being opened by mega-retailers in many parts of the country.

5.4 Discussion pertaining to Research Proposition 2

Responses to this proposition reiterated the importance of service to customers especially within the retailing sector.

All fifteen pharmacies offered polite customer service as one of their core survival strategies. The respondents insisted that most customers came to them because of the longstanding relationships they have had in the past. Most of the pharmacists also confirmed that they had enjoyed customer loyalty because of the familiarity and friendliness of their long serving staff. This is what seems to be different with mega-retailers since there is hardly any personal interaction.

Larger retailers may have a disadvantage in delivering these services in part because the inherent scale of the large format creates problems such as unfamiliar staff and an impersonal feeling (Arnold and Luthra 2000). This theory is consistent with Barry (2001) who contends that by using the well- documented retailing best practices in customer service survival and success can be achieved in retailing.

The results show that service is an important competitive strategy being used by small independent retail pharmacies. In contrast to this however, it was argued that in most Western Europe Countries retailing is essentially a low added-value activity as successful service innovations are often copied (Corstjens Corstjens and Lal 1995).

In contrast to the literature, none of the pharmacies interviewed offered discounts or lower prices as a cost leadership (Porter 1980a) survival strategy on pharmaceuticals due to two reasons:

1. Since the introduction of the pricing policies in 1994, strict control of pricing has ensured that pharmacists inform patients about cheaper generic substitutes as opposed to the more expensive original products. This is in line with objectives of the Policy for the government to develop a pricing plan for drugs and to increase the use of generic drugs in South Africa (Zuma 1997). The disadvantage of selling already cheaper generics is that the prices may not go any lower.

2. Apart from controlling generics, pricing policies have also put a stop to exorbitant pricing of all original (ethical) drugs. A result of this control is that cost leadership cannot be implemented as a survival strategy. Porter (1980a) suggested that a firm can gain a competitive advantage through cost leadership. The retailer focuses on lowering the cost of goods, in order to be the lowest competitor whilst still maintaining profits. According to Deeney (2003), in the past, ethical medicines were known to carry a substantial profit mark-up for small retailers since patients would not have an alternative cheaper drug with the same active ingredient.

Niche services also appeared as a survival strategy for two independent pharmacies who offered diabetic wound care, due to their location in a specialist clinic as well as a homeopathic dispensary. This is in line with Kotler and Keller (1993) who discussed how market nichers, who are leaders in small markets, normally avoid competing with larger firms by positioning away from the dominant brand with a high price. As further discussed by Kotler and Keller (1993), these two pharmacies implemented a product and service specialist.

The rest of the pharmacies did not provide any niche services or products to their customers apart from the dispensary.

In terms of innovative competitive strategies, only one pharmacist out of fifteen had formed an association with one mega-retailer. A majority of the pharmacy retailers did not have any association with mega-retailers. Further to this none of these retailers agreed to have adopted a “vacuum strategy” as described by Cotton and Cachon (2007). The difference in the results to the literature could be due to the nature of the pharmaceutical retail business since it is highly competitive. The lack of consistency with innovative differentiation strategies (Beal 2000) could also be due to the regulations which prohibit high pricing, advertising of pharmaceuticals and unregulated marketing of pharmaceutical products.

Marketing differentiation techniques were mentioned by all the respondents as being a way of gaining a competitive advantage over mega-retailers. This is in line with Cotton and Cachon (2007) who stated the differentiation was one of the main

aspects of a successful competing strategy adopted by small retailers against mega-retailers.

In light of this observation, the second expert noted that most of the independent retailers were either in a location such as a small shopping complex ,where mega-retailers were not interested due to the small size or they were located nearby to Doctor's rooms. These two factors seem to be the reason why some of the retail pharmacies are still able to operate despite the hostile business environment.

5.6 Conclusion

The analysis identified that the legislative changes have had a negative impact on the business of independent retail pharmacy. The effect that these policies have has is that some companies have had to close down, down size, and experience decreased margins. Mega-retailers have consolidated a number of independent retail pharmacies and will continue to do so.

The other important finding in this research is that there are some, although few profitable retail pharmacies. This is mainly because of their location in relatively small shopping centres where mega-retailers are not interested. It can therefore be concluded that their survival is not only due to their own strategic survival efforts to stay afloat, but rather due to them being in locations which are simply not attractive for bigger businesses.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter summarises the main points which have emerged from this research into survival strategies for small retailers. The discussions on this chapter are divided into three sections, namely summary and conclusion of the study; recommendations; and suggestion for future work.

6.2 Conclusions of the study

The purpose of the study was to investigate two sub-problems. The first sub-problem was to investigate the impact of legislative changes on the survival of small independent retail pharmacies. The second sub-problem was aimed to investigate which survival strategies were adopted by small independent retail pharmacies in order to stay viable.

- ***Research Proposition 1***

  Small independent retailers have been affected by the legislative changes allowing ownership of pharmacies by mega-retailers.

Aspect Affected	Literature Source	Research Findings Identified
Consolidation	D'Andrea and Lopez-Aleman (2006) Lowe and Montagu (2009)	Limited support
Decreased Margins	Stawarska and Stefanczyk (2010), Planting (2010)	Yes

Downsizing	Ricks and Pettypool (2008)	Yes
Cartel / Collusions	Taylor and Archer (1994) Reekie (1997)	Not found
Lost customers	Cotton and Cachon (2007)	Yes

An exception to the observation is that none of the pharmacies agreed to being part of a cartel or colluding with another pharmacy perhaps due to the negativity connotation associated with cartels and collusion (Reekie 1997). In his research into cartels within the pharmacy retail industry, Reekie (1997) correctly predicted the contention that cartels would inevitably collapse in the absence of government support and went on to describe the decades-long regulatory protection South Africa's governments had previously given to small independent pharmacies.

In conclusion, some elements were identified to greater extent by the respondents excluding cartels and to a lesser extent such as consolidation. Consequently, proposition 1 is **partially accepted**.

- ***Research Proposition 2***

Small independent retailers are using various survival strategies in order to survive against mega-retailers.

Survival Strategies	Literature Source	Research findings Identified
Service Specialisation	Beal (2000) Kotler and Keller (1993)	Yes

Pricing Strategies / Low cost leadership	Porter (1980a) Beal (2000)	No
Niche Strategies	Kotler and Keller (1993)	Yes
Innovation Differentiation	Porter (1980a) Beal (2000) Cotton and Cachon (2007)	Yes
Marketing Differentiation	Cotton and Cachon (2007)	Yes
Vacuum Strategy	Cotton and Cachon (2007)	No

In conclusion, the findings of this research have shown that the common themes emerging as survival strategies for small retailers are service specialisation and niche strategies. These are consistent with the literature by Cotton and Cachon (2007) stating that differentiation and niche marketing were the main aspects of a successful competing strategy adopted by resisting retailers against mega-retailers.

The vacuum strategy was not identified in any of the retail pharmacies most likely because it would not be viable for pharmacies to exclude items which customers would simply get from mega-retailers. Another survival strategy, namely cost leadership does not appear to be favourable for small retailers. This is not consistent with Porter (1980a) who states that a company can gain a competitive strategy by focusing on lowering the cost of goods, in order to be the lowest competitor whilst still maintaining profits. The reason for this anomaly could lie in the fact that the pharmaceutical retail industry is highly regulated on pricing which controls the

purchasing price of pharmacies as well as the allowable mark-up per pharmaceutical product.

Consequently, proposition 2 is **partially accepted**.

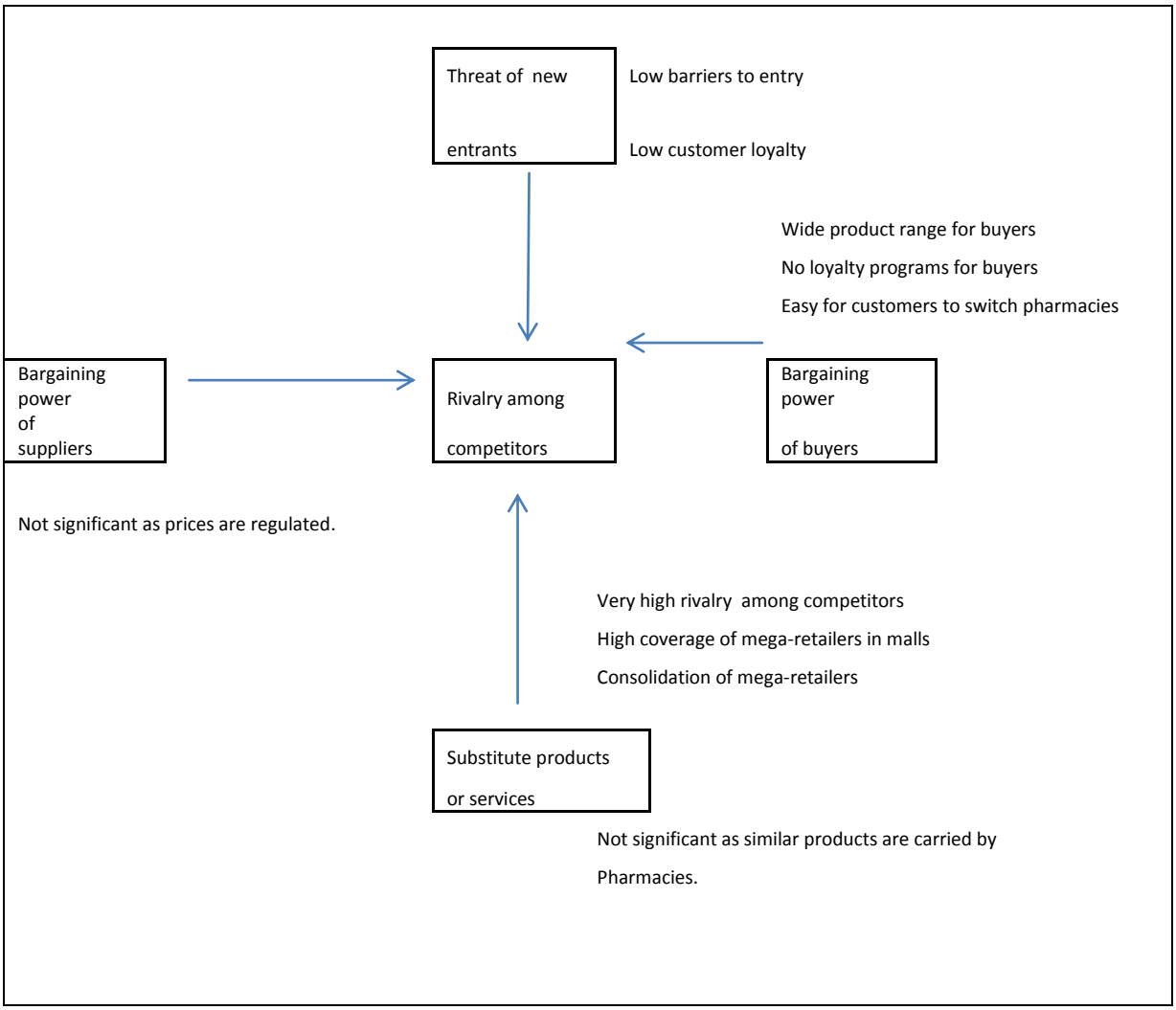
6.3 Recommendations

6.3.1 Recommendations to small independent pharmacy retailers

Recommendations to independent pharmacies may be analysed using Porter's Five forces (1985), who argues that an industry's profit potential is largely determined by the intensity of competitive rivalry within that industry.

The following is an illustration of how Porters Five forces framework could be used in the analysis on the competitive forces currently affecting the pharmacy retail industry.

Figure 2: Adapted from Porter; How Competitive Forces Shape Strategy (Porter 1985)



The research has managed to highlight the survival strategies outlook for independent pharmacies and it remains bleak. Despite attempts by independent pharmacists to protect their livelihood, many have closed down or have been bought out by mega-retailers.

Independent pharmacies therefore have limited options when it comes to survival strategies such as:

- Initiating buy-out agreements with mega-retailers based on favourable returns for the sellers as opposed to being offered a buy-out after mega-retailers have been issued licences.
- Retail pharmacies can form cartels with manufacturers or wholesales and try to compete with mega-retailers.
- Retail pharmacies can relocate to more remote locations where there are fewer or none of the mega-retailers.

On a positive note, since pharmacies are being bought out by mega-retailers at an alarming rate, there will always be a need for professional pharmacists. Pharmacists therefore can negotiate for better salaries and working conditions than they currently have.

Porter's analysis shows that there is very high rivalry among competitors which makes survival difficult for small independent retailers.

The final recommendation based on this research therefore would be for small retail pharmacies to close down and find alternative businesses, or as professionals to find employment with mega retail pharmacy chains.

6.3.2 Suggestions for further research

This study has identified important factors that should be taken into consideration for future research;

- The legislation on allowing corporates to own pharmacies has led to some business people closing down their shops. Many students at tertiary level are not aware of the realities of the industry and a suggested topic would be to

investigate whether there is a future for pharmacy graduates within retail pharmacy.

- In addition to this there has been a rising trend for mega-retailers to employ locum or part-time pharmacists who are not fully responsible for the risks associated with dispensing, such as issuing the wrong dosage or medication. Although associated with being human, such errors could be better managed if a full time responsible pharmacist were to be hired and be given part ownership. A suggested recommendation would therefore be to investigate whether the increased use of locums has affected the quality of dispensing offered by mega-retailers.

- Some mega-retailers have used the loophole to use the pharmacy as a way to attract customers into the shops. For further research, one could investigate the evolving purchasing habits of customers to recommend if independent pharmacies can do anything better in order to attract more customers.

- Recommendation of a longitudinal study over a period of time since the legislative changes in 1994.

- Quantitative study of the actual financial impact of the legislative changes on small retail pharmacies.

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APPENDIX A: ACTUAL RESEARCH INSTRUMENT

Part A – Semi Structured Questions: Characteristics of the sample firms

1. What is the age of the retail pharmacy
2. What is the number of employees
3. What is the legal entity of the firm? CC, Pty(Ltd) ,PLC, Sole Proprietory, Partnership?
4. Profitable or not?

Part B – In depth interview:

How has your business been affected by the emergence of mega-retail pharmacies?

In your opinion what aspects of the pharmacy retail business have been affected by the mega-retailers:

Part C- In depth interview:

Which survival strategies have been adopted by your business?

In your opinion , is the business of independent retail pharmacies viable?

APPENDIX B: LETTER TO REQUEST INTERVIEW

(on WBS letterhead with name of student)

Dear Mr X (name inserted),

My name is Gcinile Sibanyoni and I am a 3rd year MBA student at Wts Business School. As a requirement to complete the MBA degree, I am currently conducting a research titled “The Survival Strategies of small independent retail pharmacies in South Africa”. The research that I am currently conducting seeks to explore the impact of the legislative changes introduced in 2003 for non-pharmacists to own pharmacies. The second aspect is to investigate the survival strategies that have been adopted by small pharmacy retailers amidst the changes in the legislature which previously protected them.

Due to the explorative nature of the research, a total of fifteen pharmacy owners will be interviewed. An additional two industry experts will be interviewed to provide a wider perspective into the pharmacy retail industry.

The questionnaire attached take approximately 15 minutes to complete. Your time and contribution to this research will be highly appreciated. Feedback will be given on the final analysis should you require it. However due to the highly sensitive nature of the information, all respondents will remain anonymous.

Find attached the questionnaire for your review prior to the meetingand once again thank you for your time.

Yours Sincerely

Gcinile Sibanyoni Part time MBA student 2009-2011

Email: gcinilem@hotmail.com